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Fore Your Information: A Financial Analysis of the Golf Industry

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FORE YOUR INFORMATION: A FINANCIAL ANALYSIS OF THE GOLF INDUSTRY

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Abstract

This paper is an analysis of the leisure industry and more specifically, the golf industry. The paper examines the state of today's economy through GDP, wages, and unemployment. During these discussions, the paper touches on how these factors affect the leisure and golf industries. The paper examines the performance of the golf industry over the past several years and discusses how the golf industry is working to grow the game despite the recent departure of some businesses and brands from the market. Further, alternative golf trends are discussed, as these trends are rapidly gaining popularity and exposing more people to the game. In addition to alternative golf trends, the effect of athlete sponsorships is discussed, as golf is fairly different from other sports in this regard. Finally, the financials of individual companies are discussed and compared to each other as well as to other companies in the leisure industry. It is found that the golf companies are performing fairly well, but the company that offers many non-golf products is performing the most consistently and brings in the most revenue.

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1. Introduction

In this paper I discuss a select number of companies that are publicly traded and well known in the golf industry. I begin by examining the current state of the economy in the United States, then follow with a discussion of the leisure industry. Golf companies are classified in the leisure market, along with other companies dealing in games and outdoor activities. Following my discussion of the leisure industry, I then discuss the state of the golf industry in recent years.

After discussing the golf industry, I examine emerging alternative golf trends and touch on the effects of celebrity endorsements, particularly those of Tiger Woods. Next, I introduce Acushnet Holdings, Callaway Golf, and Cobra Puma Golf (PUMA). These companies are some of the most commonly known golf companies and offer the broadest and most similar range of golf products. I then compare these three companies to Brunswick Corporation and Dorel Industries, two other leisure stocks. I conclude with a discussion of the companies and recommendations for the future.

2. Today's Economy

Consumer spending is the primary driver of economic activity with about 2/3 of all activity being consumption by consumers (Amadeo, 2019). Leisure expenditures are typically cyclical since they are not required items like food or housing. Because the industry is cyclical, the economy and future outlook are particularly important. Commonly used economic indicators are gross domestic product (GDP), unemployment, and national income.

2.1: Gross Domestic Product

Gross domestic product is "the value of goods and services produced in the United States" (Bureau of Economic Analysis, 2019). It is also stated that the nation's overall economic health is heavily influenced by the growth rate of GDP. Quarter 3 of 2018 had a GDP growth rate of 3.4%, which is 11% higher than during the economic crisis in 2008. According to Brown (2018), "We are living in the second longest period of economic growth since World War II." Brown (2018) also predicts that continued success of the market could lead to corporations having enough confidence to increase capital expenditures, which could result in continued GDP growth or maintenance.

According to Sandomir and Belson (2009), corporate spending typically has a huge impact on professional sports organizations, and golf is no exception. The result of the 2008-2009 economic downturn was somewhat drastic for the LPGA and PGA tours. The LPGA Tour saw three title sponsors drop out, which resulted in the cancellation of four tournaments. The PGA Tour experienced the loss of three title sponsors as well, but did not have to cancel any events during that season (Sandomir and Belson, 2009). Because large corporations have a large effect on professional golf events, it will be beneficial for the golf industry as a whole if the economy continues performing well and these companies can continue to support PGA and LPGA events.

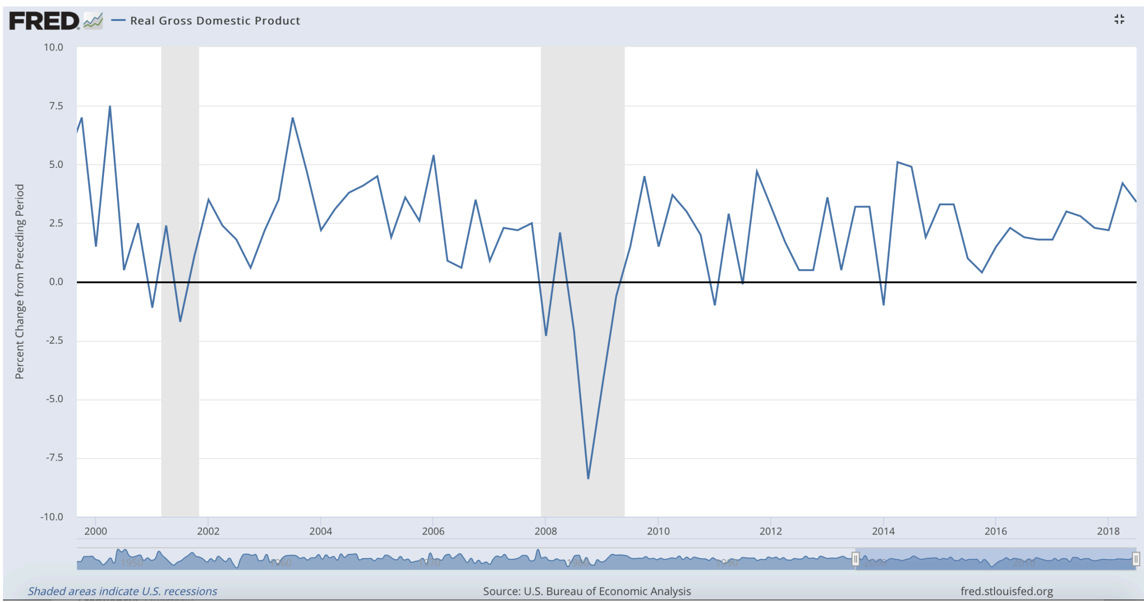

Figure 1.1: GDP in the United States from 2000 to 2018
Source: https://fred.stlouisfed.org/series/A191RL1Q225SBEA

2.2: Income and Wages

National increases in income are one of the trends that can help indicate a strong economy. According to Powell (2018), the current trend in wage growth is moderate but has increased since earlier parts of the current economic recovery. Powell (2018) predicts that wage growth will increase if there is an increase in productivity and labor market strength. Because golf can be an expensive sport to regularly play, there is typically a change in play when the economy changes.

Golf sees a lot of activity from the business community, so some people in the golf industry pay attention to memberships at elite country clubs to gauge whether or not golfers are leaving room in their budgets for memberships. Byrne (2014) found that memberships in elite country clubs were increasing as the economy was still recovering from the recession in 2008-2009. Using data from May of 2013 and comparing it to May of 2014, Byrne (2014) found that play in New York City increased by 3 percent, New Jersey saw play increase by 5.6 percent, and Connecticut saw a 4.1 percent increase in play. Byrne acknowledged these areas because they have a high volume of very expensive country clubs. Many of these country clubs have six-figure initiation fees, so Byrne (2014) used the rise in play as an indicator that avid golfers and businessmen had enough money to begin spending more on leisure activities like golf.

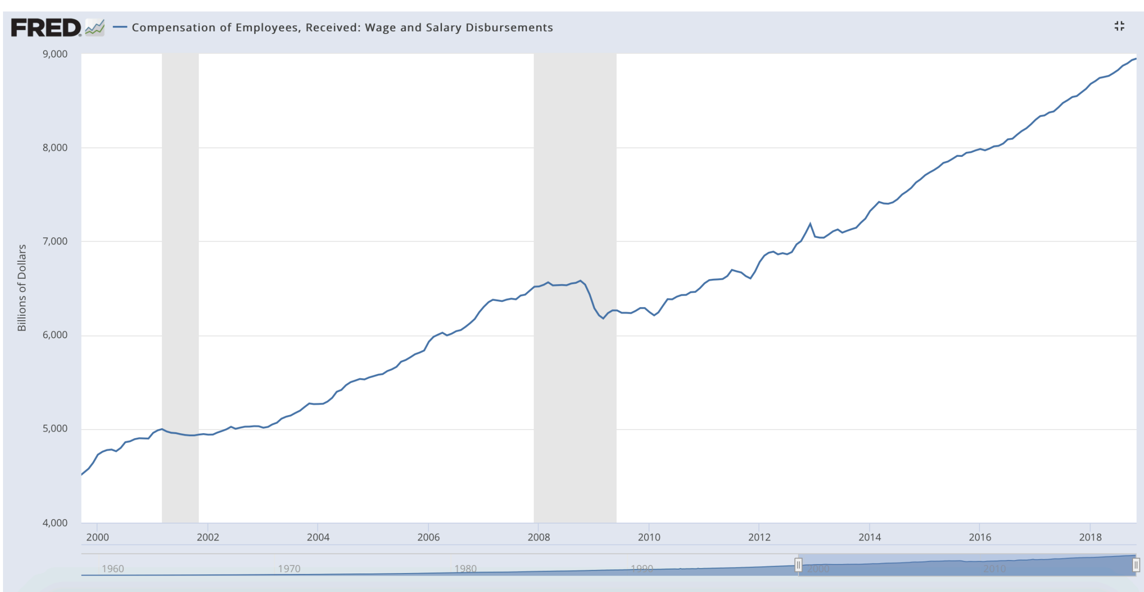

Figure 1.2: Compensation of United States Employees (in USD Billions) from 2000 to 2018
Source: https://fred.stlouisfed.org/series/A576RC1

2.3: Unemployment

Unemployment rates are commonly referenced in the media as an economic indicator. Economists can use unemployment as an economic indicator because higher unemployment rates typically correspond with lower productivity and consumer spending. Unemployment rates increased to over 9% at the end of 2009, which was the highest the country had seen since 1982. That rate has been steadily recovering since the economic crisis, and has consistently remained below 5% for the past few years. According to Powell (2018), the recent unemployment rate is slightly below what the Federal Open Market Committee considers to be the "median estimate of the longer-run normal rate of unemployment." This indicates that it should not be a major concern if the unemployment rate rises some in the near future.

As one would expect, studies have found a correlation between a drop in consumer spending and unemployment. Ganong and Noel (2015) found that when someone becomes unemployed spending drops sharply, but it drops even more sharply in states with lower unemployment benefits. More specifically, the study found that by the time a family reaches the limit of unemployment benefits, entertainment spending has dropped by about 9 percent. This is one of the greatest drops of all of the categories that were examined in the study (Ganong and Noel, 2015). This is significant because golf and other leisure activities fall would fall into the entertainment category. If there were to be another recession in the near future or a jump in unemployment rates, the golf industry could see a negative impact from the public's inability to spend money on entertainment.

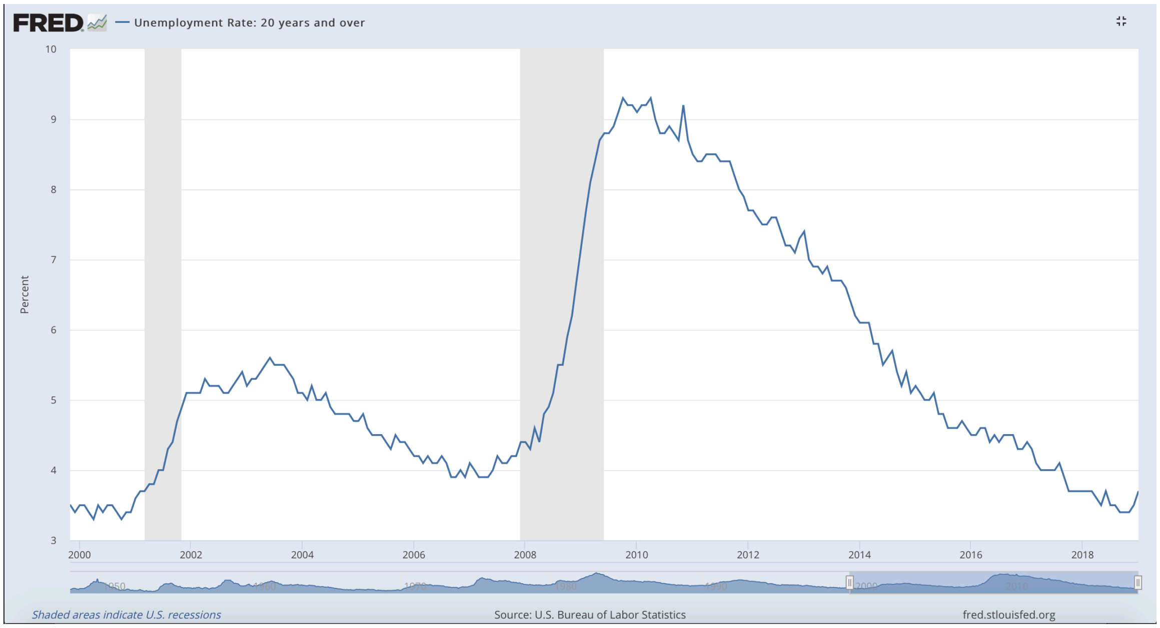

Figure 1.3: Unemployment Rate of Population 20 Years and Older in the United States from 2000 to 2018
Source: https://fred.stlouisfed.org/series/LNS14000024

3. Leisure Industry

Golf is categorized as a part of the leisure equipment and products industry. In addition to golf, the industry consists of electronic games, traditional games, and equipment for outdoor activities (The Street, 2018). While the leisure industry is a good way to predict how golf equipment, apparel, and accessories will sell, there are many companies that have golf as just a small segment of their products. For example, Cobra Puma Golf offers a wide range of golf-related goods, but Puma is best known for athletic apparel and shoes. The industry tends to move along with the rest of the market and is recovering nicely from recent slowdowns. The sports and recreational products segment is performing very well, and is currently a $115 billion industry (The Street, 2018).

The GOLF View Report predicts, “Over the next few years, baby boomers may increase demand in boating and golf products while products associated with more strenuous physical activities such as tennis have reduced outlooks” (The Street, 2018). According to Zacks Equity Research (2018), there is already a high consumer demand for recreation, which should prove to be beneficial to the leisure and recreation market as a whole. The Federal Reserve anticipated a growth of 2.8% and unemployment rate of 3.6% for 2018, which, according to Zacks Equity Research (2018), will only help to continue the current consumer demand for recreation, and produce gains for the industry.

According to Ben Alberstadt (2018), golf trails only camping and fishing in the wholesale equipment dollars category of recreational sports. Every golfer, no matter their skill level or how often they play, is highly dependent on a wide variety of equipment to make it through each round. This dependence likely explains why equipment sales have a greater impact than sales for more mainstream sports like basketball, or football (Alberstadt, 2018). The equipment category is only a portion of golf's $2.6 billions impact on the market, consisting of clubs, bags, balls, and club components that can be sold individually like grips and shafts (Alberstadt, 2018).

Due to the size of the leisure market, there are several companies that can be used to compare to the golf companies I analyze. From the golf industry, I analyze Acushnet, Callaway, and Puma. I chose these three companies because they offer the widest, but most similar ranges of golf equipment. I will compare the financials of these companies to Brunswick Corporation and Dorel Industries. Brunswick is the parent company for mostly boating brands, but also fitness and billiards companies. Dorel is the parent company of popular bicycling brands among others.

4. Golf Industry

According to the 2016 U.S. Golf Economy Report, golf's direct impact on the economy was approximately $84.1 billion, which was an increase from $68.6 billion in 2011. Golf's "impact" includes many sectors that include, but are not limited to, golf course operations, tournaments, real estate, tourism, and supplies (TEConomy Partners, LLC, 2018). In this analysis, I will focus on companies from the "golf-related supplies" segment of the market, which encompasses equipment, shoes, apparel, and the relatively small market for golf media including video games, magazines, and books. Historically, golf-related supplies are among the biggest segments in the overall golf industry. In 2016, the segment increased to approximately $6 billion, with equipment being the largest contributor (TEConomy Partners, LLC, 2018).

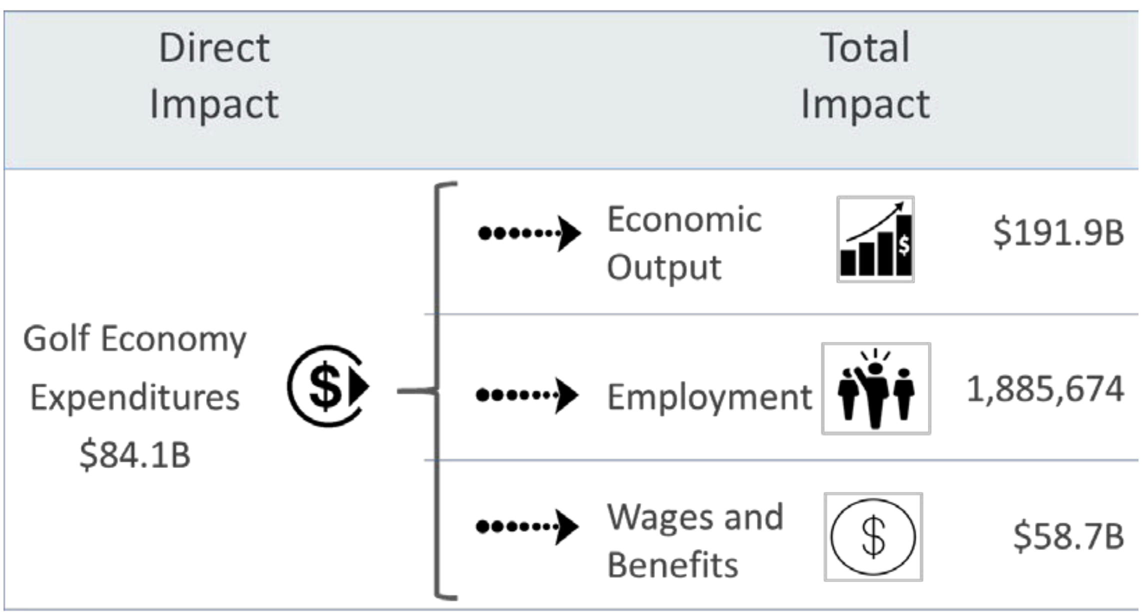

Figure 4.1: Golf's Impact on the Economy in 2016
Source: TEConomy Patners, LLC. "The 2016 U.S. Golf Economy Report." 2018.

Improving from the prior five years, 2016 showed revenues of nearly $5.5 billion for equipment and apparel, which was about 91% of the total golf-related supplies market. The total market segment increased approximately 7.2% from 2011, which fell about 8.3% from 2005. While the whole golf-related supplies segment is still about 1.76% below 2005 levels, the equipment and apparel subsection is up approximately 5.15% (TEConomy Partners, LLC, 2018).

In recent years, it has become widely known that many golf courses are not doing as well financially as they once were. This financial decline has resulted in the closure of a significant number of golf courses around the world, especially in the United States. Although data shows a decline in golf facilities, not everything in the sector is trending downward. According to the 2016 U.S. Golf Economy Report, facilities did see a net decline of 737 total facilities from 2011 to 2016, but the revenue grew to over $30 billion for the 15,014 golf facilities in the United States. The golf facilities sector includes not only courses, but also driving ranges and other alternative golf facilities (TEConomy Partners, LLC, 2018). According to the National Golf Foundation (2018), the closure of traditional golf facilities should not be a cause for concern, because, "It helps the supply and demand balance in an over-saturated industry."

The uptick in alternative golf trends could be the reason why golf has seen an increase in revenue and play despite the amount of closures of traditional golf courses. According to the National Golf Foundation (2018), 2016 saw a record number of golfers who played on a course for the first time. The previous record was set in 2000 when Tiger Woods won three major tournaments. The number of first-time golfers could continue to increase, as the amount of non-golfers who claimed to be "very interested" in golf increased by nearly two million in 2016 (National Golf Foundation, 2018).

Figure 4.2: Golf Participation in Millions of Players in 2017
Source: National Golf Foundation. "NGF Issues 2018 Golf Industry Report." *The NGF Q*. May 2018. https://www.thengfq.com/2018/05/ngf-issues-2018-golf-industry-report/.

5. Alternative Golf Trends

Driving ranges offer an affordable place for avid and novice players alike to brush up on skills or just have some fun. It's nothing new for driving ranges to operate on a larger scale than just golf and offer food and drink services, but the industry was greatly changed when Topgolf made its debut. Instead of the "Tiger effect" that was seen when Tiger Woods stormed onto the scene in the late 1990s, Erik Matuszewksi (2017) is referring to the golf industry's latest phenomenon as the "Topgolf effect".

Topgolf began with 3 facilities in the United Kingdom in 2000, and moved to the United States in 2005. The brothers who started the company wanted a stress-free environment to hit golf balls while also preserving some of the competition that you find on the golf course (Topgolf, 2019). Topgolf uses microchips to track golf balls and count points based on the game that players choose. In addition to the competition, Topgolf locations offer full service restaurants and bars so the patrons can enjoy food and drink while hitting golf balls. The addition of quality food has paid off greatly for the company and the golf industry alike. People go to Topgolf locations for a fun afternoon with their families or friends, and leave realizing that golf can be fun, and that it might be a sport in which they continue to participate.

Topgolf has proven that the environment that has been created at its locations is providing a platform for non-golfers to gain experience in the game. According to its website, 54% of the customers are ages 18-34 and 78% of the customers play 7 or fewer rounds of golf annually (Topgolf, 2019). These figures could explain why golf revenue is increasing, but there is still a decline in the total number of golf courses. Perhaps these statistics should be encouraging to the golf world. Some of these customers could realize that golf is something they enjoy, and start playing and spending more. According to Erik Matuszewski (2017), there were over 60,000 lessons given at Topgolf facilities last year, and 90% of those who received lessons were new to golf.

Well-known companies are taking advantage of the increasing popularity of non-traditional driving ranges. Callaway Golf has been a lead investor in Topgolf since 2006, and their clubs are available to customers at every location (Topgolf, 2019). TaylorMade, now privately owned, has partnered with Drive Shack, which is a fairly new company with a similar atmosphere to Topgolf. Cobra Golf recently invested in Flying Tee, which is also similar to Topgolf and is reported to be expanding in the United States and Asia in coming years (Matuszewski, 2017). Flying Tee is slightly different from Topgolf because in addition to the driving range, players have the option to play simulated courses, which falls more in line with the screen golf trend that is growing in Asia.

South Korea has become a huge market for screen golf, which is another growing golf alternative. Companies like Golfzon are taking advantage of the demand for a quicker, more convenient alternative for golf by providing golf simulators in cities around the world. The company claims to have facilitated 56 million rounds in 46 countries in 2018 and even offers professional golf tours with season-long purses over $1 million (Adler, 2019). In South Korea alone, there are more rounds of “screen golf” played annually than “field golf”. Additionally, a study found that in 2015, “rise in golf simulators has allowed the golf industry to see a 10 percent year-over-year growth in that Asian country” (Kerr-Dineen, 2018).

Unlike Topgolf, Golfzon provides somewhat of a more traditional golf experience by offering private rooms for simulators that allow golfers to play virtual versions of real golf courses. This feature allows Golfzon to promote its technology to new golfers as well as serious golfers who don't have the time to play a round on an actual course (Kerr-Dineen, 2018). Topgolf and Golfzon differ greatly from traditional golf courses, but one of the key selling points for these alternative facilities is that they can thrive in urban settings. Traditional golf courses must focus on rural areas due to the large amount of land that is needed to build 18 holes. Golfzon and Topgolf can reach a new segment of the market by promoting themselves to people that live in metropolitan areas and can't easily access a traditional golf course.

6. The Effects of Celebrity Endorsements

Golfers receive endorsements from companies in a variety of different industries, so the effect of player performance on the sponsor is never exactly the same. Players often have contracts with multiple golf companies, sometimes one for clubs, one for apparel, and another for balls, all from different companies. Additionally, non-golf companies can sponsor golfers by having their logo embroidered on an article of the golfer's clothing or on their bag. Golfers are also often spokespeople for non-golf companies in television ads or other media, such as Jordan Spieth for AT&T or Rickie Fowler for Farmers Insurance.

In the case of golf, the sponsoring company that sees the most gain (or loss) tends to be the golf-related company, not companies from a different industry (Farrell et al., 2000). According to Farrell et al. (2000), Tiger Woods' first years as a professional had a profound impact on TV viewership. Weekend broadcast ratings were up for all professional tours and the 1997 Masters saw roughly a fifty-five percent increase from 1996. Golf is unique because it is an individual sport, and television exposure for any given player depends on how well he or she is playing in a given event. Because of this, sponsors can gain significant exposure if they have an athlete performing well any given week. If a sponsor can get a rising star, the company should receive plenty of exposure if their athlete performs well, which can lead to increased revenues for the company.

Titleist (then owned by Fortune Brands) and Nike signed Tiger Woods when he turned professional in 1996. He also had deals with American Express and Rolex in the first couple years of his pro career (Farrell et al., 2000). After signing Woods, Nike saw immediate results with "Nike's sales of golf apparel and footwear doubled to an estimated $120 million. For the entire company, sales in the quarter immediately following Woods' endorsement were up fifty-five percent" (Farrell et al, 2000, 2).

While Nike saw increased revenues after signing Woods, Farrell et al (2000) found that the Woods' performance had little to no impact on the stocks for American Express and Fortune Brands, which owned Titleist at the time. In some instances, sponsoring a well-known athlete can also produce a negative impact for companies. In 2009, Tiger Woods was involved in a car accident that eventually led to news that he had participated in several affairs while married to Elin Nordegren. While the stock market response was found to be insignificant (Hood, 2012), it is possible that Woods' actions and subsequent break from golf helped lead to the downward spiral of Nike Golf.

In 2016, Nike announced that it planned to focus solely on golf apparel and shoes, and has since left the equipment industry altogether. Nike saw huge success in the golf industry when Tiger was in his prime, but it was after his extramarital affairs, a break from the game, and a couple of injuries that the company announced its exit from the equipment segment. Nike was able to sign Rory McIlroy a couple of years before their departure from golf equipment. McIlroy was having a lot of success at the time of his signing, but it seems that without Tiger's support, Nike could not keep up with the competitive equipment segment.

For many golfers, the bulk of their income comes from endorsements. According to Abigail Hess (2018), four of the five highest paid golfers in the world earned more from endorsements than winnings from golf tournaments. The only player in the top five to earn more from tournament winnings was Justin Thomas, who made $5 million in endorsements and $21 million in golf tournament winnings (Hess, 2018). These numbers show that it can be crucial for professional golfers to maintain a good public image. Professional golf can pay large sums of money, but there is an even greater payoff if golfers play well enough and have a good enough image for large companies to endorse them.

7. Acushnet

Acushnet Holdings is the parent company to some of the most recognizable names in golf. Beginning with Titleist, Acushnet's golf roots can be traced all the way back to 1930. Phil Young was playing a match against an x-ray technician from the local hospital. Young missed a putt, but was adamant that he missed because the ball was off center, not because he struck it poorly. Young asked his opponent to x-ray the ball to verify his suspicions. Young owned a local rubber company, so with the help of a fellow golfer named Fred Bommer, he was able to start a new golf division of Acushnet Process, and the Titleist golf ball was born (Titleist, 2019).

Less than two decades later, Titleist was the most played golf ball at the U.S Open, and Acushnet brands since then have lived up to Titleist's tradition of excellence. (Titleist, 2019). The Pinnacle golf ball was introduced in 1972, and marketed as a distance ball for the average golfer that wasn't as concerned with the ball's performance around the green. It has since been marketed in a similar fashion, and is sold as a very affordable ball for those who don't take the game too seriously (Stevens, 2019). In 1985, Acushnet acquired FootJoy, which had been established as a respectable shoe company for well over 100 years. FootJoy was already a leading brand in the industry, but Acushnet's acquisition led to a wider range of products and continuous domination in the industry (FootJoy, 2019).

Acushnet expanded yet again in 1994 by creating a partnership with Cameron Golf International. Scotty Cameron had been designing and creating golf clubs since the

1960s. As a result, by the 1980s Cameron was responsible for crafting putters for many well-established golf companies (Scotty Cameron, 2019). In 1993, Bernhard Langer won the Master's with one of Cameron's original designs. This victory caught the eye of the Acushnet CEO, and less than a year later, Cameron had a partnership with Titleist that is still going strong today (Scotty Cameron, 2019). In 1996 the Acushnet family of brands grew yet again by joining forces with Bob Vokey of Vokey Wedges. Bob was originally a respected name in the design of all types of golf clubs, but his focus on wedges allowed him to join forces with Titleist and build a name that is now well known by all golfers and endorsed by numerous professionals (Vokey, 2019).

Acushnet went public in 2016 and is still heavily involved in every aspect of the golf market through each of the brands mentioned above. Acushnet gets exposure each week through their well known sponsored golfers such as Justin Thomas, Jordan Spieth, and Bubba Watson.

8. Callaway

Callaway Golf was founded in 1982, and entered the golf world by way of the equipment segment of the industry. Today, Callaway Golf is the parent company of Callaway, Odyssey, Toulon Design, OGIO and Travis Mathew (Callaway Golf, 2019). Through these brands, the company has a hand in every aspect of the golf industry, including clubs, balls, apparel, and even golf bags. In addition to traditional golf goods, Callaway has also started offering a line of GPS equipment including range finders and watches, giving the company one of the broadest ranges of products in the industry. Recently, Callaway took a step in a new direction and became an investor in Topgolf (Callaway Golf, 2019).

While Callaway does not sponsor some of the big up-and-coming golfers like Acushnet and Cobra, they do receive a lot of exposure through sponsorships of long time tour professionals Phil Mickelson and Sergio Garcia.

9. Puma

Cobra Puma Golf began when Puma acquired Cobra Golf in April of 2010. Cobra had long been a respected name in the golf equipment industry, and when consolidated with Puma, Cobra Puma Golf became a brand that offered equipment along with apparel, accessories, and footwear as well. Cobra Golf began in 1973 when an Australian golfer named Thomas Crow began the club company. Today, the equipment part of the brand is still sold and marketed as Cobra Golf. Clothing, shoes, and accessories are branded through Puma (Cobra Golf, 2019).

Cobra Puma Golf became more of a household brand when Rickie Fowler burst onto the scene in the last few years. He became known for his brightly colored outfits and his all orange outfits were almost as well known as Tiger's Sunday red polo. Cobra Puma Golf recently signed Bryson DeChambeau. DeChambeau is new to the PGA Tour but is already making his presence known through his unconventional scientific approach to the game. By sponsoring Rickie, DeChambeau and LPGA pro Lexi Thompson, Cobra Puma Golf should be a household name for many years to come.

10. Comparison of Financials

I now turn to a discussion of the major golf companies' financial ratios and compare them to two other non-golf leisure companies.

Table 10.1 Financials for Fiscal Year Ending 12/2017

	Acushnet	**Callaway**	**Puma**	**Brunswick**	**Dorel**
Revenue Growth	(0.76)%	20.38%	14.04%	8.57%	(0.98)%
Return on Equity	11.4%	6.32%	10.14%	9.87%	6.13%
Debt-Equity Ratio	1.04	0.503	0.723	1.26	1.04
Earnings Per Share	$1.24	$0.43	$10.30	$1.64	$2.07
Annual Stock Return	9.43%	27.46%	75.89%	2.5%	(9.16)%

Source: Annual Financial Report for each company
Note: PUMA financials are released in Euros. Dollar amounts have been converted (2/21/19)

There are numerous ratios and values used by investors to analyze and compare the performance of different companies. The ratios that are commonly used by investors fall into the categories of price, profitability, liquidity, debt, and efficiency. Using each company's financial data from 2017, I discuss the revenue (sales) growth, return on equity, debt-equity ratio, earnings per share, and annual stock return for each company.

Revenue growth is seen as a positive for companies. Return on equity (ROE) is a profitability ratio and is calculated by dividing net income by total shareholder equity. Increasing ROE is a good sign for a company and its shareholders. The debt-equity ratio is a debt ratio and is calculated by dividing total liabilities by total shareholder equity. A lower debt-equity ratio is a good sign, because it indicates that a company is using less debt than equity to finance assets, and therefore has less financial and bankruptcy risk, all else equal. Earnings per share indicate the profitability of a company. The stock return rate over some period of time indicates what kind of returns an investor can expect from a particular stock.

Callaway saw the largest revenue growth rate by far. As previously mentioned, this is likely due to the acquisition of two brands that were already well established in the golf industry. Acushnet showed the largest return on equity of the golf companies and of the leisure industry comparisons. Callaway offers the lowest debt-equity ratio of all compared companies. Acushnet is the only golf company with a debt-equity ratio above one, meaning it carries more debt than equity to finance assets. However, Acushnet's debt-to-equity ratio has declined substantially from over 7.4 in 2015 to 1.04 in 2017, indicating an improving trend for this ratio. Brunswick and Dorel also carried debt-equity ratios above one in 2017. Puma stock offered the highest earnings per share by far. Callaway and Puma both had favorable returns for 2017. Dorel Industries was the only company examined to have a negative stock return for the year.

10.1: Acushnet Holdings Corp Financials FY Ended 12/31

Table 10.2: Acushnet Financial Values from 2015 to 2017

	2017	**2016**	**2015**
Revenue	$1,560,258,000	$1,572,275,000	$1,502,958,000
Return on Equity	11.4%	6.44%	2.15%
Debt-Equity Ratio	1.04	1.26	7.41
Earnings Per Share	$1.24	$0.74	$(0.74)

Source: Acushnet Holdings 2017 Annual Financial Report

Acushnet did see a slight drop in revenue from 2016 to 2017, but 2016 was a fairly substantial increase from 2015. Although there was a drop in revenue in 2017, the company saw an increase in return on equity and earnings per share as well as a decrease in its debt-equity ratio. 2017 was at least the second year in a row for an improving trend of those values. Acushnet had a stock return of 9.34% during 2017. The company issued common stock dividends of $0.48 and the stock price increased about from nearly $20 to $21.23 during the year. After going public in the year before, 2017 was the first year that the company issued dividends.

According to the 2017 Acushnet Holdings Annual Report, the company sees a large amount of revenue from large retail stores and golf courses. The report states that the 2016 bankruptcy of Golfsmith had a significant impact on sales in the second half of 2016 and all of 2017. It will be worth paying attention to financial condition of other major sports retailers.

10.2: Callaway Golf Financials (FY Ended 12/31)

Table 10.3: Callaway Golf Financial Values from 2015 to 2017

	2017	**2016**	**2015**
Revenue	$1,048,736,000	$871,192,000	$843,794,000
Return on Equity	6.32%	31.38%	3.55%
Debt-Equity Ratio	0.503	0.317	0.529
Earnings Per Share	$0.43	$2.02	$0.18

Source: 2017 Callaway Golf Annual Financial Report

Despite increasing revenues, Callaway Golf’s other ratios were not consistent from 2015 to 2017. The values for return on equity, debt-equity ratio, and earnings per share all followed the same trend from 2015 to 2017. The values improved from 2015 to 2016 and then worsened from 2016 to 2017. The company had some changes in its stake in Topgolf and acquired two well-known golf brands within the years of 2015-2017. These changes are likely the cause of the fluctuations. The Callaway Golf stock had a stock return of roughly 27% for the year of 2017. The company has issued $0.04 dividends per common share for each of the last several years, so the increase was primarily due to the increase in stock price from about $11.00 to about $14.00 during 2017.

Callaway saw roughly a 20% increase in revenue from 2016 to 2017. This jump seems quite unusual, but according to the company's financial reports, it can be explained by Callaway's acquisition of OGIO and Travis Mathew during the 2017 fiscal year. The addition of the two brands allowed Callaway Golf to reach a larger group of customers and resulted in huge revenue gains. Should these brands continue to remain relevant, and Topgolf continues trending upward in popularity, Callaway Golf could be in a good financial position for years to come. Like Acushnet, however, the company does sell in retail stores, so the closure of any large retailers could hurt revenues.

10.3: Puma Financials

Table 10.4: PUMA Financial Values from 2015 to 2017

	2017	**2016**	**2015**
Revenue	$4,690,743,393	$4,113,232,685	$3,841,829,872
Return on Equity	10.14%	4.57%	2.29%
Debt-Equity Ratio	0.723	0.606	0.618
Earnings Per Share	$10.31	$4.73	$2.81

Source: PUMA 2016 and 2017 Annual Financial Reports
Note: Financials are released in Euros. Dollar amounts converted 2/23/19

Puma has produced increasing revenues, returns on equity, and earnings per share from 2015 to 2017. The debt-equity ratio has fluctuated slightly since 2015 but has remained below 1.0, which is considered to be favorable. Puma's stock had a large return of nearly 76% in 2017. The stock price increased by roughly 70% during the year, and the company also issued a one-off dividend of €12.50. The prior year resulted in a dividend of €0.75.

Puma credits increased revenues to a higher focus on fashion and lifestyle trends. In recent years, the company has signed many well-known influencers such as Rihanna, The Weeknd, and Cara Delevingne as brand ambassadors. These ambassadors along with Cobra Puma's well-known tour professionals have helped return the brand to a household name.

10.4: Brunswick Corporation (FY Ended December 31)

Table 10.5: Brunswick Corporation Financial Values from 2015 to 2017

	2017	**2016**	**2015**
Revenue	$4,510,000,000	$4,153,900,000	$3,780,200,000
Return on Equity	9.87%	19.17%	18.84%
Debt-Equity Ratio	1.26	1.28	1.46
Earnings Per Share	$2.10	$2.99	$2.49

Source: 2016 and 2017 Annual Financial Reports

Like golf and other industries within the leisure market, Brunswick Corporation sees a seasonal cycle in sales. The marine segment relies on fair weather, and the 2017 Annual Report states that the fitness segment is also very seasonal, seeing an increase in sales in the 4th quarter. Brunswick has seen at least two consecutive years of improving its revenue and debt-equity ratio. It is stated in the company's 2017 annual report that it has seen 9 consecutive years of growth, which is attributed to the performance of the marine segments of the company. Unlike revenue, return on equity and earnings per share each increased from 2015 to 2016 then saw a drop from 2016 to 2017. The stock return for Brunswick was 2.5% in 2015. The price increased by less than a dollar that year and had a dividend of about $0.69. The dividends per share have been increasing by a few cents for each of the last few years.

10.5: Dorel Industries (FY Ended 12/30)

Table 10.6: Dorel Industries Financial Values from 2015 to 2017

	2017	**2016**	**2015**
Revenue	$2,577,668,000	$2,603,185,000	$2,683,357,000
Return on Equity	6.13%	5.52%	5.26%
Debt-Equity Ratio	1.04	1.06	1.09
Earnings Per Share	$2.07	$1.80	$1.79

Source: 2017 and 2016 Annual Financial Reports

Dorel has seen declining revenues for at least two consecutive years, but the other values that I chose to discuss have been improving since 2015. In the 2017 Annual Report for Dorel Industries, it is acknowledged that there are a handful of factors that resulted in the declining revenue. The company has a Juvenile segment that sold through Toys R Us and was impacted when the company announced closures in 2016. Additionally, the Dorel Annual Report blames poor weather for part of 2017 as a cause for decreased sales in the Dorel Sports segment. The stock for Dorel Industries had an annual loss of about 9 percent in 2017. The stock price dropped by about $4.00 from January of 2017 to December of the same year, and the company issued a dividend of $1.20 per share that year. The price per share of the stock has been consistently below $15 since the later part of 2018.

11. Conclusions and Recommendations

Golf is a seasonal industry that depends heavily on a small portion of the population to support it. Because the game relies on fair weather, a major weather occurrence could wreak havoc on the market. Additionally, older generations are a larger segment of the market than younger generations. If younger generations don't become more interested in the game, it could cause some trouble for the companies in the already competitive market segment. These factors should always be considered before choosing to invest in a golf company.

Of the golf companies discussed, Puma would likely be the safest investment because golf is only a small portion of the company. If there was ever a major unfavorable change in the golf industry, Puma has other sports to fall back on and support the company. The company's stock and revenue have been increasing for several years. The company has signed popular celebrities to promote the brand, and it seems to be paying off.

Callaway Golf seems to be in a good financial position after the acquisition of Travis Mathew and OGIO. The company has maintained a debt-equity ratio below one for several years. The company has also seen an increase in revenue for a couple of years, with the greatest increase coming after the acquisition of Travis Mathew and OGIO. Callaway Golf share prices increased drastically during most of 2018, but saw a huge drop towards the end of the year. For most of 2019 so far, the price has stayed relatively close to $16, which is approximately what it dropped to at the end of 2018.

Acushnet Holdings saw a slight decrease in revenue in 2017, but the previously discussed ratios have all improved from 2015 to 2017. The company did, however offer the explanation of the closures of prominent retail partner locations for the drop in revenue. The other discussed ratios have continued to improve from 2015 to 2017. The Street (2018) recommends holding GOLF stock, but this could improve to buy if revenue improves in coming years. GOLF stock prices have fluctuated some since the company's 2017 IPO. It peaked around $28 in 2018 but dropped to $21 by the end of the year and has since hovered around $23.

Overall, Puma seems to be the most consistent of the golf companies that were examined. Puma has been around in the sports industry for a long time and the executives continue to work on promoting and growing the brand. The fact that Puma can rely on other market segments to support the company seems to make it a much more sound investment than companies that focus solely on golf. Acushnet and Callaway have been performing well for the past couple of years, but golf has been shown to be a very sensitive market that relies on weather and a very small percentage of the population. There are many factors that could affect the golf industry in a negative way and these stocks would likely see much bigger impact than Puma. Overall, there are many things to consider before investing in a stock, and that rule is no exception for the golf industry. From the information that was previously discussed, it seems to be a safer choice to invest in a company that has golf as just a part of brand, rather than a company that relies solely on one sport.

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